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March 25, 1976

Nº 699

DIA and DOS review(s) completed.

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Approved For Release 2007/03/06 : CIA-RDP79T00975A028700010044-5

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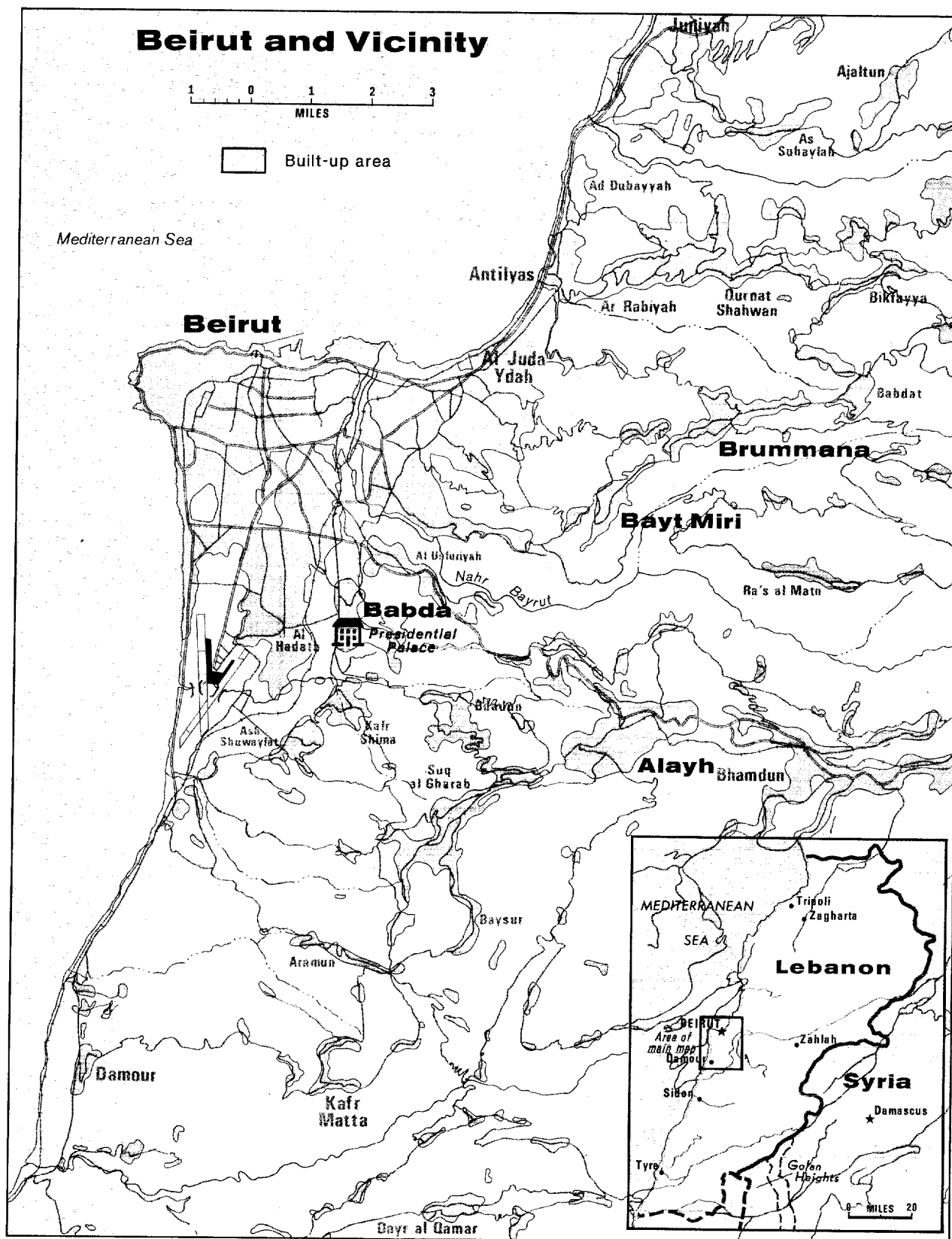
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LEBANON

Fighting in Beirut slackened yesterday after leftist forces consolidated their control of most of the hotel and commercial districts. The leftists and rebel Muslim army troops continue to shell the Christian-held port area and positions near the presidential palace, but they have again postponed a major attack on the two Christian strongholds.

Both sides seem to be awaiting the results of Syrian efforts to persuade leftist leader Kamal Jumblatt to accept a cease-fire proposal already approved by the Christian militias and the Palestinian fedayeen. Reports on the outcome of Jumblatt's meeting yesterday with Syrian mediators suggest he is still insisting on President Franjiyah's immediate resignation.

Jumblatt is in a strong bargaining position. He heads an emerging leftist coalition composed of his own large private militia, the forces of Muslim radical Ibrahim Qulaylat, and those of rebel Muslim army officer Ahmad Khatib. This alliance probably cannot press its military advantage much further without active support from the major Palestinian fedayeen groups, but it can undermine any truce agreement it finds unsatisfactory.

A statement issued yesterday by Syrian Foreign Minister Khaddam promising that President Franjiyah will relinquish his office as soon as a new president is elected may help speed the cease-fire negotiations. Jumblatt may hold talks with Syrian President Asad in Damascus today.

Asad's Dilemma

Asad's handling of the Lebanese crisis is apparently creating dissatisfaction within the Syrian military that may further complicate his efforts to obtain a cease-fire and engineer Franjiyah's resignation.

As more Syrian regulars have been pressed into service in Lebanon, the military probably has also begun to worry that it will become bogged down there indefinitely or, even worse, get involved in an unwanted conflict with the Israelis.

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The continued defiance of Jumblatt and other leftist leaders has created a potentially serious dilemma for Asad. Faced with the prospect of the collapse of his mediation efforts, he probably feels under strong pressure to use more Syrian regulars to restore order. Now, however, he must contend with the possibility not only of provoking Israel, but also of provoking dissension within his own military, especially if he tries to crack down too heavily on Lebanese leftists.

The seeming intractability of the Lebanese situation has doubtless sharpened existing rivalries within the Syrian leadership and raised the hopes of Asad's enemies that he will seriously misstep. Dissension within the military does not appear to have reached the stage where it threatens Asad, who is adept at outmaneuvering his opponents.

Should his mediation efforts go seriously awry, some of his enemies could be emboldened to move against him. Coup plotters, however, would have to contend with the still formidable military forces at Asad's disposal.

Syrian forces are now on full alert because of the crisis in Lebanon, and Asad's personal security has been increased, according to a Syrian source of the US embassy in Damascus. There are no indications that Syria has moved additional forces into Lebanon in the past few days.

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Israeli aircraft yesterday flew several reconnaissance missions over southern and central Lebanon.

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ARGENTINA

The new military junta in Argentina is firmly in place and giving the impression that it intends to remain in power indefinitely.

Former president Peron, her secretary and adviser Julio Gonzalez, and several Peronist leaders are in military custody. While there have been reports that she would be tried on corruption charges, she probably will be allowed to go into exile in Spain.

Even as she was being deposed, junta President Jorge Videla was moving to set up the new government. A steady stream of official proclamations began flowing from military headquarters, reflecting the military's continuing preoccupation with terrorism. There has been little violence so far, but stiff penalties have been decreed for anyone who assists the terrorist cause. Security forces have been ordered to shoot anyone found interfering with public services.

Videla and the two other junta members, Admiral Massera and General Agosti, were sworn into office in a perfunctory ceremony yesterday morning. The government has banned political and labor union activity, closed congress, suspended the supreme court, and begun to appoint military governors for Argentina's 22 provinces.

The interim cabinet appointed yesterday is composed of relatively young, field-grade officers from the three services. The foreign affairs and economy portfolios probably will eventually go to civilians, while retired military officers will head the other six ministries.

The junta will have to turn to foreign governments, commercial banks, and international financial institutions for help in dealing with the severe economic problems it inherited. It will make every effort to avoid repressive measures that might damage its international reputation.

The top military leaders are friendly toward the US and will strive to improve Argentina's ties with Washington. They will be looking to the US as a source of investment and new capital to cover Argentina's huge debt payments and current-account deficit.

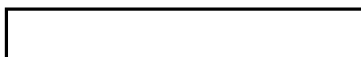
The next several months are likely to continue to be tough for US firms in Argentina. They will suffer from labor agitation, sabotage, and shortages of all kinds. The security risk for US personnel will remain high.

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Like his recent predecessors, both civilian and military, Videla has begun with the hope of restoring a sense of well-being to his badly fragmented country. Among its stated objectives, the junta vows "to restore morality and honesty, to eradicate subversion, and to provide initiative to foreign and national capital."

Former governments have failed to put muscle behind similar rhetoric, and Videla's task may prove even more difficult. The terrorists and Peronist labor are still potent forces, and runaway inflation is forcing even apolitical workers to support radical demands for ever higher wages. The new leaders will need the support of the foreign and domestic financial communities if they are to succeed.



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ZAMBIA

The Zambian government may be making contingency plans for supporting the Rhodesian insurgency.

In an informal briefing of senior Zambian officials, Prime Minister Mudenda discussed restrictions Zambia would place on Rhodesian insurgent groups should they begin operating from Zambian territory. The government reportedly would allow guerrilla operations to be conducted from Zambia and would provide a safe haven in the event of hot pursuit by Rhodesian security forces.

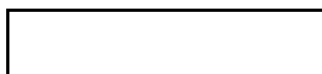
There are reportedly a few hundred armed and trained guerrillas now in southeastern Zambia, but they have not yet begun any operations. The insurgents would be provided tactical information on Rhodesian border posts, small boats for river crossing, and possibly transportation for arms and equipment.

Mudenda said, however, that under no circumstances would training be allowed on Zambian soil and Zambia would not act as an intermediary for procurement or shipment of arms to the insurgents. Zambia also would not, Mudenda said, allow Cuban or other non-African forces to travel through Zambia or to participate with the guerrillas in military operations from Zambian territory.

All non-African support must come through Tanzania and Mozambique; no such support will be permitted to be funneled through Zambia. These ground rules would apply equally to Rhodesian and Namibian insurgent groups.

The Zambian government has long maintained tight control over the activities of liberation movements within Zambia. The new restrictions, however, clearly reflect Zambian concern over the Soviet and Cuban roles in Angola and are intended to prevent any such involvement with Rhodesian insurgents inside Zambia.

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EGYPT

President Sadat appears to be trying to reassure the Egyptian military in the aftermath of his abrogation of the Soviet-Egyptian friendship treaty. He is also trying to head off any efforts by Soviet or Arab propagandists to stir up unrest among the armed forces over Egypt's military and economic problems.

Sadat has been touring Suez Canal cities since March 16, reviewing the progress of reconstruction and talking to military groups. The trip began two days after Sadat's speech announcing the abrogation of the friendship treaty, in which he declared frankly that without spare parts, Egypt's Soviet arms will be mere scrap metal within 18 months.

On Monday, Sadat sought to explain his move against the USSR to the officers and men of the 2nd Army at Ismailiyah and to reassure them that he will not slacken his efforts to rebuild the Egyptian military. In a passage calculated to appeal to military leaders, who had chafed under overbearing Soviet advisers before their expulsion in 1972, Sadat charged that the price tag for Soviet arms has always been some restriction on Egyptian political independence. He affirmed that Egyptians could not under any circumstances "relinquish our will" in return for additional arms.

Sadat said that he had taken two major decisions after the 1973 war—to move toward economic liberalization and to break the Soviets' arms monopoly by diversifying Egypt's sources of arms. He linked the two as complementary efforts to secure advanced economic and military technology. The President said one of the purposes of his economic "open-door" policy has been to free Egypt from backwardness. One of its consequences, he promised, will be to secure "the most sophisticated weapons in this world"—weapons that are better, he implied, than Moscow can provide.

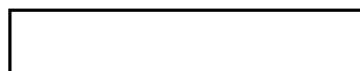
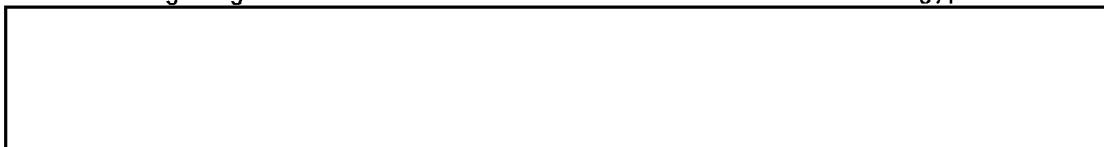
Sadat's somewhat strained justification of his economic liberalization program as an integral part of his drive to improve Egypt's military capabilities appears to be an effort to head off any discontent in the military over his economic policies.

The gap between rich and poor in Egypt has been widened by the economic liberalization program, increasing discontent among Egyptian students and workers. Sadat probably fears that propagandists from the Egyptian left, from other Arab states, and from the Soviet Union will play on this theme to spread the dissatisfaction to the military.

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Sadat also fears that Moscow and many of the Arab states will use the abrogation of the friendship treaty to demonstrate to the Egyptian military that Sadat is to blame for the poor state of Egypt's military equipment inventories. He could offer little more than long-range promises on this score in his speech to the 2nd Army. Without saying so directly, he implied that the effort to rebuild the military will be a long process, and he appealed for patience on the grounds that he has been fighting a battle with the Soviets "for the freedom of Egypt's will."

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PAKISTAN-USSR

Relations between Islamabad and Moscow appear to be entering another period of strain.

The US embassy in Islamabad reports that Prime Minister Bhutto registered strong dissatisfaction with Soviet policies during the brief visit early this month of Soviet Deputy Foreign Minister Firyubin. The Soviet official had stopped in Islamabad after visits to India and Sri Lanka.

Bhutto charged that Moscow speaks of better relations, but continues to provide India and Afghanistan with military equipment. He said Moscow's refusal to recognize the generally accepted boundary between Pakistan and Afghanistan encourages Afghanistan in its campaign against Pakistan. The Prime Minister also asserted that, despite the encouraging communique resulting from his trip to Moscow in October 1974, the Soviets are not interested in improving relations.

Firyubin reiterated in low-key fashion the Soviet line on a wide range of issues. He did not press the Pakistanis on a long-standing Soviet proposal for an Asian collective security pact, and he did not raise Pakistan's membership in the US-sponsored Central Treaty Organization.

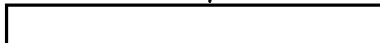


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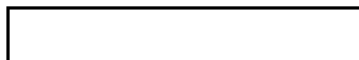
Pakistan last week turned down a Soviet request to open a cultural center in Islamabad, and a recent visit by Soviet legislators was marred by scheduling disputes.

Bhutto has long been wary of the Soviets and their close ties to New Delhi and Kabul. Prior to the Firyubin visit, the Pakistanis said Moscow was pressing them to institute basic foreign policy changes, and they expressed concern that the European security agreement has freed Moscow to apply more pressure on Pakistan.

Bhutto is currently promoting a tripartite security pact with Iran and Turkey, which at least in part would be designed to counter what Bhutto sees as the threatened expansion of Soviet influence in the area.



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JORDAN-ITALY

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[redacted] Amman is negotiating the purchase of nearly 90 surplus US-supplied M-47 medium tanks from Italy, and that it is considering buying 100 more.

The tanks, according to a source of the US embassy in Rome, would be modernized by an Italian firm before being turned over to Jordan. Their 90-mm. guns would be replaced by 105-mm. weapons, night-sighting devices would be added, and diesel engines would be installed to increase their cruising range.

The embassy reports that Jordan is also interested in having the Italian firm install new guns and engines in about 150 tanks already in Jordan's inventory. The entire deal would reportedly be financed by Saudi Arabia.

A transfer of Italian M-47s to Jordan would require US approval and, even though the Saudis may have agreed in principle to finance the deal, they are notoriously slow moving in making good on their promises.

Amman is eager to modernize its armed forces, which have been steadily losing ground to those of neighboring Arab states, which have received a steady flow of advanced Soviet and Western military equipment in recent years. The Jordanians see the Italian deal as a quick way to obtain additional tanks for units that they want to form.

Jordan has nearly 650 medium tanks, but only about 80 are modern US M-60s equipped with 105-mm. guns. About 250 of its tanks are British Centurions with 105-mm. guns, while another 285 are US M-48s fitted with 90-mm. weapons. The Jordanians also have a few M-47 tanks that were taken out of service several years ago.

Amman would like to increase its armor force by at least another 100 tanks. The army, however, is likely to continue to suffer from a shortage of men able to operate and maintain the new equipment, even though a conscription law that went into effect this year will bring additional personnel into the service. [redacted]

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USSR

The Soviets have recently made significant gains in their programs to develop a nuclear-fusion reactor, also a major goal of US nuclear research.

A fusion reaction will produce energy by the same process as a hydrogen bomb, but the energy will be released slowly and in a controlled manner. If scientists can tap this form of energy, a nearly inexhaustible supply of energy will be available.

The fuel is deuterium, a form of hydrogen available in virtually unlimited quantities in water. The problem is to raise the temperature of the fuel to about that of the sun to ignite the fusion reaction and then to continue the reaction at that temperature while extracting usable energy.

Scientists at the Kurchatov Institute of Atomic Energy have achieved impressive results on the new Soviet fusion research device, the T-10 Tokamak; a Tokamak is a large, doughnut-shaped device in which the very hot hydrogen fuel is contained by a magnetic field. New records were set for the length of time the high-temperature fuel was contained and in the amount of fusion energy released. Based on these results, the Soviets will not construct the T-20, a much larger Tokamak designed specifically to demonstrate conclusively the feasibility of producing energy in this way.

The Soviets have also proposed an ambitious program to develop electron-beam fusion devices. They recently announced that they were the first to produce fusion energy by compressing a pellet of deuterium by means of a powerful electron beam. This program will probably now receive additional emphasis.

The Soviet fusion program, which is larger than the US program in both funding and manpower, will probably be the first to demonstrate successfully the feasibility of producing fusion energy. The US program is expected to match the recent Soviet results later this year. Many formidable engineering problems remain to be overcome, however, before an electric power plant based on fusion energy can be built.

Because of its superiority in overall nuclear technology, the US could still develop the first fusion power plant even though the Soviets have made major advances in their research program.

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ITALY

The Italian Christian Democrats' national congress laid bare deep divisions in the party and ended yesterday on a note of uncertainty.

The decision to elect the party leader at the congress, rather than permit faction chiefs to choose one behind closed doors as in the past, accentuated divisions instead of easing them. The vote showed the delegates split almost evenly into two groups. Party leader Zaccagnini was narrowly re-elected by a coalition drawn largely from the left. The rest of the delegates, mainly center-right in orientation, supported Defense Minister Forlani, even though he had officially withdrawn from the race.

The differences between the two groups flow mainly from their positions on the question of relations with the Communist opposition. Zaccagnini's supporters generally see continued confrontation with the Communist Party as a counter-productive strategy. They want to open a dialogue with the Communists that would cast the differences between the two parties more in terms of issues than ideology and possibly lead to compromises on major questions. Those who backed Forlani argue that such a policy would amount to a softening of the Christian Democrats' traditional opposition to the Communists and would ultimately make it more difficult to keep them out of the government.

The narrowness of Zaccagnini's victory means that he will probably have trouble implementing his position that the Christian Democrats should open a dialogue with the Communists. Zaccagnini's majority in the national council—the party's chief deliberative body—is slimmer than that of any recent party leader, and he will probably have to make substantial concessions to the center-right group that opposed him.

The Christian Democrats are under pressure, meanwhile, to decide whether to continue their one-party minority government led by Prime Minister Moro. Lack of confidence in Moro's staying power has hindered efforts to halt the depreciation of the lira. The Christian Democrats, moreover, are reluctant to continue as the only governing party in the midst of the country's worst postwar recession.

The Christian Democrats emphasized their desire for another alliance with the Socialists, but the Socialists, who met early this month, have ruled out a return to government until after the next parliamentary election. Unless the Socialists back down—which seems unlikely—pressures will increase for an election this summer or fall, rather than in May 1977 as scheduled.

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Zaccagnini is said to believe the Christian Democrats are not prepared to face the electorate now and is searching for some way to hold off an election. He seems attracted to Republican Party leader La Malfa's proposal for a new emergency economic program, which would enable the Christian Democrats to share the burden of Italy's economic problems.

The proposal, which calls for the Moro government to draw up new economic measures in consultation with all parties except the neo-fascists, has reportedly been endorsed by the Communists. Many Socialists, Social Democrats, and Christian Democrats appear open to the idea.

The chief obstacle to the emergency formula appears to be the reservations of Zaccagnini's center-right opponents in the Christian Democratic Party who see it as a variation of his proposed dialogue with the Communists.

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PORTUGAL

The military leaders yesterday reaffirmed April 25 as the date for Portugal's legislative assembly election following an all-night session of the Revolutionary Council.

There had been widespread rumors in Lisbon that the Council would delay the election for at least two weeks and possibly longer.

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The Council did indicate, however, that the official election campaign—now set to begin on April 4—might be shortened. During the official campaign period, the parties' access to the media will be regulated to encourage equal coverage, and the results of public opinion polls may not be published.

A shortened campaign will make little difference to the political parties, which in effect have been campaigning since the beginning of the year.

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ITALY

The 25-percent decline in the value of the lira since mid-January has restored the international competitiveness of Italian products to the level of early 1973. To preserve this gain, Rome must contain inflation, which has been fueled by soaring labor costs.

The immediate cause of the lira's decline was a massive outflow of capital precipitated by the political developments that led to the fall of the Moro government in January. Underlying the decline, however, is severe and persistent inflation.

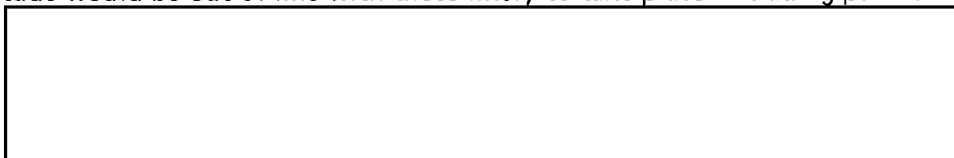
Rome has so far attempted to deal with the problem through stop-gap measures. The austerity plan announced last week should help some, assuming plans to reduce the budget deficit are actually implemented. The cutback will be difficult to carry out in the current political situation, and it still does not deal with the basic cause of inflation—spiraling labor costs in an atmosphere of strong union power.

Since 1970, labor costs have climbed 15 percent annually—the highest rate among major industrial countries. Since 1972, the three major labor unions have been linked in a loosely organized federation that acts as a common bargaining agent.

The unions have pushed through sharp wage hikes that have spilled over into other areas. Real industrial wages have risen an estimated 40 percent since 1970. Even Italy's deepest postwar recession did not quell the unions' ability to win hefty pay hikes. In last year's depressed labor market, they managed to push through a 25-percent increase in nominal wages, leading to a considerable jump in real purchasing power. Rises in the wages of public employees helped swell the government's deficit in 1975 to the equivalent of 15 percent of gross national product.

The strikes employed to enforce union demands have been carefully orchestrated to disrupt production as much as possible while minimizing worktime lost. Productivity has suffered because employers are unable to scale down operating expenses. Increased absenteeism since 1972—when the government passed legislation making it illegal for employers to require proof of illness—has also cut into the growth of productivity.

The 15-percent wage increase won by chemical workers earlier this month probably will serve as a precedent for other wage settlements this year. Increases of this magnitude would be out of line with those likely to take place in trading partner countries.



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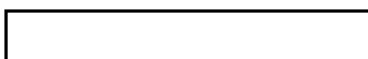
The first round of balloting, the results of which will be announced today, is unlikely to have produced a successor to Harold Wilson as the British Labor Party leader.

With the center-right vote probably split among four candidates, Employment Secretary Foot, a long-time left-wing stalwart and the sentimental favorite of some big unions, may have topped the first ballot tally. Foreign Secretary Callaghan and Home Secretary Jenkins will probably turn out to have been the other two top finishers.

Callaghan is likely to pick up second-preference votes on the next ballot and is still regarded as the odds-on favorite ultimately to come out on top.

He could experience some trouble, however, if Chancellor of the Exchequer Healey or Environment Secretary Crosland survives the first round. Either of these two could become a rallying point for those Laborites from all sections of the party who harbor doubts about Callaghan's ability to handle the prime minister's job. But in Callaghan's favor is the widespread belief that he would be able to maintain cooperation between the Labor Party and the trade unions, the foundation of the present Labor government.

If no candidate has won the required absolute majority of the Labor Party's contingent in the House of Commons, the second round of balloting will begin immediately. Results of this ballot will not be announced until March 30.



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EC - ARAB STATES

In a continuation of the dialogue that was initiated more than two years ago, EC and Arab League officials have agreed to meet at the ambassadorial level on May 18 and 19 in Luxembourg.

The decision to hold a high-level conference had been held up by Arab demands that the Palestine Liberation Organization be represented in the talks and that political questions receive greater attention. More recently, however, the Arab states have shown an increased interest in the economic and technical side of the talks. Agreement has now been reached on how to deal with the political issues:

--Participants at the conference, as in the past, will be identified only as belonging to the "European" or "Arab" delegations, thus avoiding official, open EC recognition of PLO representatives.

--Both sides will be allowed to raise political issues in their opening statements, but the conference will then move immediately to a discussion of economic and technical issues.

The Nine are worried that the Arabs may still try to use the final communique as a vehicle for drawing the EC into a political debate. If this occurs, the Nine have decided to issue a separate statement giving their interpretation of the conference results and restating their position on the Arab-Israeli dispute.

EC Commission President Ortoli's visit to Israel last week was intended primarily to reaffirm Western Europe's ties to Israel and to reassure Tel Aviv of the Community's determination to maintain an even-handed approach toward the region. Ortoli told the Israelis that the EC will sign financial and industrial cooperation agreements with Israel once negotiations with Egypt, Syria, Jordan, and Lebanon are concluded.

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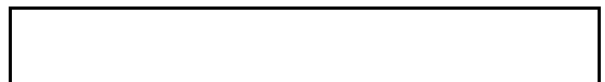
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